

1974 Annual Report



BOEING



ON THE COVER:



1. Minuteman has been major deterrent to nuclear aggression since 1962.
2. B-52 has served as nation's primary bomber force for more than 20 years.
3. Jetfoil One, first of two passenger-carrying hydrofoil vessels launched in 1974, "flies" during test run.
4. UTTAS, the company's entry in a U.S. Army helicopter competition, made a successful first flight in November.
5. Rise in air cargo market forecasts promising future for 747 Freighter.
6. 707/727/737 aircraft are assembled in this manufacturing facility.

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Annual meeting of Boeing stockholders will be held at the offices of the Company, Seattle, Washington on May 5, 1975. Formal notice of the meeting, proxy statement and



■ AWACS performance under operational conditions has been validated in an extensive flight test program.

HIGHLIGHTS

	<u>1974</u>	<u>1973</u>
Sales	\$3,730,667,000	\$3,335,189,000
Net earnings	\$ 72,432,000	\$ 51,215,000
Per average share outstanding	\$3.42	\$2.38
Per cent of sales	1.9%	1.5%
Stockholders' equity	\$ 954,967,000	\$ 900,122,000
Shares outstanding at year end	21,171,488	21,296,488
Stockholders' equity per share	\$45.11	\$42.27
Cash dividends paid	\$ 15,898,000	\$ 8,622,000
Per share	\$.75	\$.40
Salaries and wages	\$1,098,985,000	\$ 955,539,000
Average number of employees	74,400	68,200
Additions to plant, net	\$ 84,129,000	\$ 33,074,000
Depreciation of plant	\$ 64,478,000	\$ 65,994,000
Funded backlog at year end	\$3,824,444,000	\$3,152,243,000



■ T. A. Wilson (left) and Malcolm Stamper compare 747SP model with standard 747. Wilson is Chairman of the Board and Chief Executive Officer. Stamper is company President.

MESSAGE TO STOCKHOLDERS

As can be seen in the Financial Highlights on the adjacent page, the trends experienced by The Boeing Company the past several years continued in 1974. Sales were up 11.9 per cent from the previous year and reached an all-time record of \$3,731 million. Earnings climbed 41.4 per cent above 1973. The increase in backlog of approximately \$700 million provides some assurance that, based on current programs and schedules, 1975 sales should approximate the 1974 level.

With improved earnings and a reduction in overall debt, the quarterly dividend was increased from 15 cents to 20 cents per share, beginning with the first quarter of 1975.

The year ahead, however, is filled with challenges. Positive factors include a sound financial position, satisfactory operating performance on major programs, and a highly respected product line which, in

the case of jet transports, we are endeavoring to fully exploit through development of derivative models. Ranged against these factors is a projected downturn in commercial aircraft markets brought on by the current economic climate, the prospect of reductions and stretchouts in defense spending, and, of course, higher costs of doing business across the board.

A year ago the nation and the oil-consuming world were alarmed over the fuel crisis, and predictions of severe cuts in new airplane orders had substance. Some orders we had hoped for at that time did not materialize and some were deferred; but, as the record shows, orders received in 1974 exceeded those in 1973.

During 1974, domestic and foreign orders for all models of our commercial jet airliners totaled 188, compared with 174 in 1973. In the domestic market our 727-200 continued its reasonably high level of

orders. Its efficiency and versatility were sufficiently compelling that five domestic airlines ordered 52 of the 95 new 727s sold during the year. Primarily they will replace older and less efficient equipment. Foreign orders for all models, on the other hand, were aimed less at replacing older equipment than at providing additional airlift. The value of foreign orders booked in 1974 was \$1.6 billion, and represented 75 per cent of the total value of commercial airplane orders received. Foreign customers accounted for 26 of the 29 Model 747s ordered during the year, all 17 Model 707s, and 44 of the 47 Model 737s.

The outlook is for this pattern to continue in the near term. Generally speaking, domestic airlines need little additional airlift but would continue to profit by replacing less efficient equipment with quieter and more efficient models. The larger foreign market, which consists of rapidly expanding airlines as well as others which more nearly resemble American trunk carriers in their replacement needs, still has a substantial requirement for additional capacity.

We believe that our long-term strategy of offering each of our models in a variety of configurations will continue to serve us well. There is virtually no major airline requirement which cannot be met effectively by one of our existing or planned model derivatives. In 1973 we announced the 747SP, a short-body, long-range, high performance version of the standard 747. The first of these will roll out of our factory this spring. Airline interest indicates that the SP will be an important factor in the total market for long-range airplanes for many years to come. During 1974 we conducted an in-depth study of a growth version of the popular 727. Following detailed discussions with a number of airlines, we have concluded that it will serve a clear and evident need. Accordingly a production go-ahead for this airplane—the 727-300—is a strong possibility when the current economic and energy issues have been clarified.

Military business is also faced with its share of challenges. Because our military business base has been broadened in recent years, we are no longer dependent on one or two major programs. However, the addition of programs has increased our vulnerability to at least some reduction of business in times of defense spending cutbacks. Unavailability of congressional funding for anticipated orders for 19 Chinook helicopters in the fall of 1974 is a case in point.

In addition to broadening its military business, the company has entered certain fields for which it had special and available capability. Some of these, such as hydrofoils and rapid transit, were in the company's basic product line, which is transportation equipment

and related services. Others, such as computer services and field operations services, were directly tied to activities being conducted in support of our basic operations.

The only major departure from this established and broadened product line will be our efforts in the engineering and construction field. Here we have joined construction, waste-water treatment activities and specialized technological groups into a new Boeing Engineering and Construction organization. This organization will apply its abilities principally in supporting some of the major construction, engineering and equipment requirements of established firms in the energy and energy related fields.

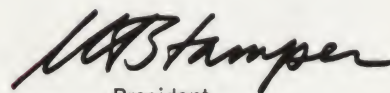
Because of the importance of export sales, we are pursuing our interest in international program participation. We are continuing our efforts to establish longer-term development and production relationships, through such programs as the Aeritalia participation on the proposed new-generation commercial jet transport 7X7 program and the exploration of joint-program possibilities with the Japanese.

We have also been holding discussions with representatives of the Soviet Union. Subject to guidelines established by the United States government these talks deal with the possible sale of 747 aircraft to Aeroflot, the airline of the Soviet Union, and the sale of certain technology related to civil aircraft manufacturing processes.

In summary, as was indicated in last year's report, the opportunities and the basic elements for success in a normal business environment are still in evidence: well developed markets, highly competitive and respected products, an experienced and skilled workforce, well equipped and modern facilities, and a sound and improving financial base.



Chairman of the Board
Chief Executive Officer



President

March 3, 1975



- Advanced Airborne Command Post, military adaptation of the 747B, will serve as a flying headquarters in the event of a national emergency.

- Various models of Boeing jetliners are readied for customers at the flightline in Seattle. AWACS 707 is now in flight test program for the Air Force.





737



727-200



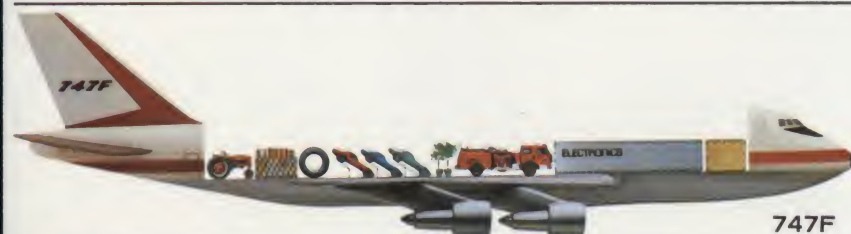
707



747



747SP



747F



747 COMBI

■ The Boeing family of commercial jet transports spans the spectrum of airline requirements for range, size and performance. The 737 meets any short-to-medium range need, and the medium-range 727 is the world's most ordered commercial jet transport. The 707 is ideally suited to long-range, medium-capacity routes, while the 747 — available in eight versions — provides unmatched accommodations for passengers and cargo.



■ E. H. Boullioun
President
Boeing Commercial Airplane Company

BOEING COMMERCIAL AIRPLANE COMPANY

The 1974 commercial jet transport market was significantly affected by increased jet fuel costs and by the downturn in the world economy.

Despite these negative influences, the value of our commercial airplane deliveries in 1974 exceeded \$2 billion, representing 189 airplanes (up 33 from 1973) including twenty-one 707s, ninety-one 727s, fifty-five 737s, and twenty-two 747s.

We did equally well in new orders by announcing over \$2 billion worth for the second straight year. One hundred eighty-eight airplanes were involved, including seventeen 707s, ninety-five 727s, forty-seven 737s, and twenty-nine 747s.

We outsold both foreign and domestic competition in all three markets — for short, intermediate and long-range airplanes.

Of the new orders announced, 69 per cent of the units and 76 per cent of the dollar value were from foreign carriers.

These results can be attributed to an expanding base of customers, product quality, and the wide selection of models and configurations offered.

The 747, for example, is available in eight different versions. These high performance aircraft burn less fuel per passenger mile and per ton mile than any



- Test flight in Pacific Northwest skies precedes the first delivery of a 727 to Air Canada.
- This Japan Air Lines 747 freighter was one of ten cargo-carrying 747s to enter service in 1974.

commercial airplane flying. To help ease the over-capacity problem existing in some market segments in 1974, several 747-100 aircraft were converted into freighters by adding a side cargo door.

Northwest Airlines, which purchased three 747Fs (Freighters), became the first domestic trunk airline to order that model. Seaboard World (a U.S. all-cargo carrier), Japan Air Lines and Air France began freighter service in 1974. Seaboard set a new record for commercial airlift recently when its 747F carried 253,800 pounds of cargo nonstop from New York to London.

At the beginning of 1974, only three cargo-carrying 747s were in service; by the end of 1974, thirteen were operating on transatlantic, transpacific, United States domestic and South American routes. By the end of this year that figure should double. This includes aircraft equipped with the very popular, large side cargo door option. Twenty 747s (including the 747Fs) equipped with the door, have either been delivered or are on order. The door is designed to increase 747 versatility by allowing mixed passenger and freight loads during less busy travel seasons. It is an excellent example of the company's philosophy of trying to initiate product improvements to meet emerging market requirements.





- Three new customers began operating 707s in 1974, the 17th year of product life for the model.
- In 1974 foreign airlines placed 26 of the 29 orders for 747s, two of which are shown in final assembly.

KLM Royal Dutch Airlines in ordering the new 800,000-pound combination passenger/cargo version became the first airline to purchase the 747 with the General Electric engine. Middle East Airlines became the 38th 747 customer with an order for three combination aircraft.

Several 747 passenger aircraft played a unique role during the evacuation of cyclone-stricken Darwin in northern Australia. While the 707s and 727s were carrying record passenger loads for those models, a 747 airlifted 674 passengers plus flight deck and cabin crew of 23. It was closely followed by a second 747 with 663 passengers plus crew.

The latest derivative of the 747 aircraft is now taking shape in the Everett factory. It is the high performance, short-body 747SP (Special Performance). Forty-seven feet shorter than its big brother, it carries fewer passengers, but it flies them higher, faster and farther than the standard size 747s. The first aircraft will begin final assembly late in March, with rollout in late May and first flight in mid-1975.

The first three 747SPs will undergo a flight test program that will lead to FAA certification, and then the first 747SP will be delivered to Pan American in early 1976 for introduction into commercial service.

Continued customer interest is evidenced in the 747SP. The purchase of three by South African Airways, and two by Syrian Arab Airlines, a new Boeing

customer, brought orders for this new derivative of the 747 family to 13. Iran Air increased its order from two to three, while Pan American, whose order launched the program, reduced its initial commitment to five.

Considerable development effort has been accomplished which could lead to installation of an advanced Rolls-Royce engine on the 747. If British government funding is forthcoming, the program could proceed this spring, with first delivery timed for early 1977.

In its seventeenth year of product life, the 707 continued to attract commercial orders. Pertamina of Indonesia purchased its first 707 Intercontinental, and Saudia, the airline of Saudi Arabia, and Egyptair announced reorders. Three customers began their first 707 operations in 1974: Iraqi, Sudan and Tarom of Romania. In addition, there was considerable 707 activity involving military customers.

Orders for the Advanced 727 again outpaced all other models. 727 purchase activity was led by U.S. domestic airlines, primarily for fleet standardization or replacement of older, less efficient equipment. Delta Air Lines ordered 22; American Airlines, 21; Braniff, 5, and Western 3. In addition, there were 13 reorders by previous 727 international operators.

Air Canada took delivery of its first 727 in September. JAT, the Yugoslav national airline, THY, the air-



- This 747 flew nonstop from Seattle to Amman, Jordan, a distance of 8,369 miles — a wide-body record.

- Wing is shown being joined for the first 747SP, which will make its first flight this summer.
- 737 will be dominant airplane in Brazil when 21 ordered in 1974 by three Brazilian airlines are delivered.

line of Turkey, and the ALIA-Royal Jordanian Airline also introduced 727 service during the year. Customers ordering this most popular of airplanes for the first time include Jamaica, Pertamina, Syrian Arab, and American Capital Aviation.

Mexicana Airlines, a long-time 727 customer, received the first 727 with the advanced JT8D-17 engine. Rated at 16,000 pounds of thrust, the engine provides increased payload and range capability.

Demand for the twin engine 737 continued at a brisk pace in 1974 with 47 new orders being announced—almost all going to foreign carriers who operate the aircraft with a two-man rather than a three-man flight crew.

In one of the year's major sales achievements, three Brazilian airlines—Varig, Cruzeiro and VASP—ordered a total of 21 Advanced 737s. Varig and Cruzeiro, new 737 customers, are replacing older airplanes. When all 21 are delivered, the 737 will be the dominant airplane in the fast-growing Brazilian domestic market. Air Nauru, airline of the Central Pacific Republic of Nauru, became a new Boeing customer with its order for one 737. Late in the year, Sudan Airways, already a 707 customer, ordered two 737-200Cs, its first twinjets. Also, Sabena Belgian World Airways, Transavia Holland and Sahsa of Honduras introduced 737s into service for the first time.



During 1974 substantial engineering progress was made on development of a new derivative of the 727, designated the 727-300. Boeing and United Airlines have entered into an understanding calling for joint development of specifications, which are expected to be defined with the help of other domestic and foreign airlines.

The proposed 727-300 is being designed to have outstanding economics and meet all applicable noise regulations. The development of the airplane—which would be capable of carrying some 30 more passengers or a total of about 160 in U.S. airline use—is being studied to insure that the 727 could retain its market into the 1980s. Besides increased capacity, the 727-300 includes an improved wing, new landing gear, and an advanced (refan) version of the JT8D engine with lower fuel consumption, higher thrust and lower noise levels than the present 727s.

Preliminary design studies continued on the 7X7 program, with primary focus on a medium-range airplane in the 180-200-passenger category. As an outgrowth of the fuel crisis, 7X7 engineering emphasis has been directed at technical areas which could lead to improvements in fuel efficiency as well as to significant improvements in airline economics. The 7X7 is envisioned as a new-generation transport for introduction in the 1980s.

Aeritalia remains in association with us on the 7X7 development. Negotiations are continuing with the Civil Transport Development Corporation of Japan to determine contractual means acceptable to both parties that would allow Japan to participate in the development of the 7X7.

At the end of 1974, airlines were feeling the adverse effects of world-wide economic problems: high inflation, business stagnation, international monetary imbalances and higher operating costs. The net effect was zero growth for the year in world-wide revenue passenger miles—a standard measurement of airline well-being.

Nonetheless, U.S. airlines as a whole showed relatively strong financial results for the year. In many instances, these results were attributable to actions taken as a result of the fuel crisis, such as grounding less-economical airplanes, increasing fleet utilization, and reducing schedules with a consequent gain in load factors. Despite the relative strength, however, prospects of declining traffic in the first months of 1975 may discourage equipment decisions except for replacement requirements.

The near-term business outlook is constrained by economic uncertainties and we are not certain how long they will last. However, the company still is forecasting sizable commercial transport deliveries through 1985.

Given the return of a more positive business environment and resumption of airline traffic growth, we believe our current jet transport offerings, the new derivative models and the 7X7 under development are well suited to meet both airline growth and replacement needs.



WICHITA DIVISION

The Wichita Division continued to place major emphasis on support of the B-52 bomber and KC-135 tanker fleets, modification of commercial aircraft and production of components for commercial jetliners and helicopters.

A highlight of the year was the acquisition of the B-52D Structures/Modification Program designed to extend the already impressive service life of these airplanes. The program calls for the installation of wing and fuselage components in 80 of the aircraft. The first B-52D to receive the improvements arrived at Wichita in January 1975 with completion of the program scheduled for late 1976. The program also involves the structural testing of a substantial number of B-52Ds, the first of which arrived in October.

Also, production of lower wing panels to extend the service life of KC-135 tankers was initiated in late 1974 under an Air Force contract with an option to extend the work into late 1977.

The KC-135 Programmed Depot Maintenance program entered its fourth year during 1974. One hundred and fifty-nine tankers will undergo modification by mid-1975 and an additional quantity of 158



- Conversion of passenger 747s to freighter configuration for Flying Tiger Line included installation of a side cargo door, restructured floor for cargo handling system.



- Otis H. Smith
Vice President—General Manager
Wichita Division

through mid-1976. Continued favorable performance enhances the division's position in future competition for modification work.

The year also saw the division's entry into the 747 modification business. Four 747s were converted to special freighter configuration, which included removal of all passenger accommodations on the main deck and installation of a cargo floor, a powered cargo handling system and a side cargo door. Two of the cargo jets were completed for Flying Tigers and two for American Airlines.

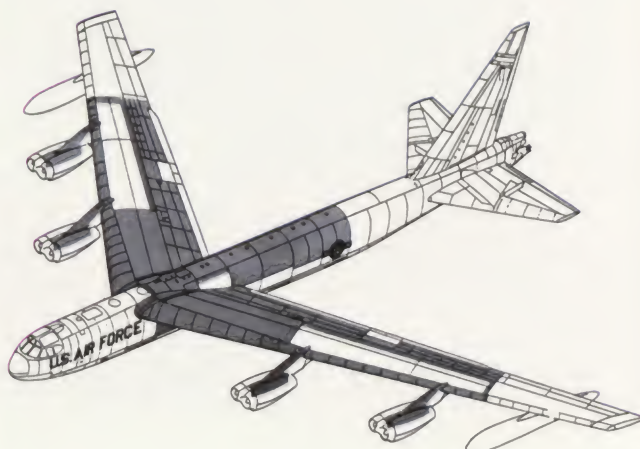
In addition, the division completed a variety of modification assignments on other Boeing commercial jetliners for Olympic, Pacific Southwest, British Caledonian, Singapore, Dan-Air, Northwest, Iran Air, Air France, Piedmont and Air Finance International.

Support of other company programs also continued. Components and assemblies were produced for 707, 727, 737 and 747 aircraft and for CH-47 helicopters. Especially noteworthy was the start of deliveries of new thrust reversers for 727 aircraft. Model 747 work, which included fabrication of JT9D-70 engine struts and CF6-50 engine nacelles and struts, progressed on schedule, as did work on prototype nacelles and struts for the company's advanced medium short-takeoff-and-landing transport, the YC-14.

In the field of noise abatement, fabrication operations were begun on a full-scale aircraft engine

ground noise suppressor for the U.S. Navy. Technical research in this area also included work on advanced acoustic suppressor concepts for the National Aeronautics and Space Administration and plug nozzle development work for the Federal Aviation Administration.

- Shaded areas depict sections of B-52D model aircraft to be modified under a structural improvement program to extend service life of 80 Air Force heavy bombers.





■ O. C. Boileau
President
Boeing Aerospace Company

BOEING AEROSPACE COMPANY

Boeing Aerospace Company is a major developer and supplier of military systems. In 1974 revenues from military business continued the improving trend which began two years earlier.

For the near-term, however, the company must face the possibility that inflation and recession may have an impact upon its government business. Inflation threatens to cause a serious erosion of the Armed Services' ability to acquire weapons systems in the quantities and on the schedules originally contemplated.

In this environment, the immediate prospect for acquiring significant new programs does not appear bright and some curtailment of existing programs is a possibility. Fortunately, there is considerable long-term business potential in a number of our current programs. Our challenge is to grasp the opportunity for growth which such programs provide.

A program with important potential is the Air Force's Airborne Warning and Control System (AWACS). Boeing is prime contractor for the radar-equipped flying command-and-control system, which employs the 707 as the flight vehicle. An extensive flight-test program has confirmed the compatibility of the system's major elements and demonstrated its performance under operational conditions.

Integrating complex military systems with commercial airplane derivatives, as in the AWACS, has become an increasingly important factor in the company's business. The Advanced Airborne Command Post aircraft, for example, are modified 747Bs, which will be outfitted with a very large quantity of electronics equipment. The Air Force has ordered four 747s for the command post role. It plans a total order of seven.

The company also is endeavoring to demonstrate the capability of the 747 for other important military assignments, including use of the airplane as a military air transport and as a tanker.

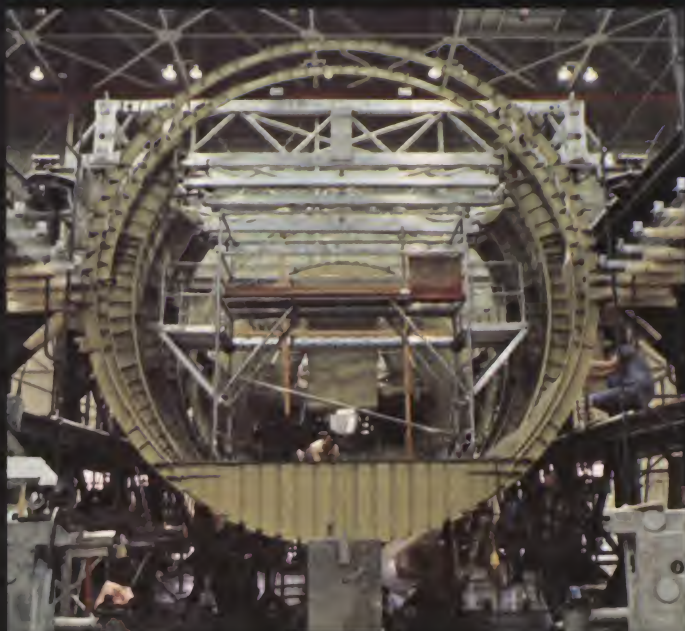
Another military derivative, based on the 707-320, is Boeing's entry in a competition for Canada's Long Range Patrol Aircraft program. Boeing and another manufacturer have submitted proposals under contract to the Canadian government. Like the AWACS and the Command Post aircraft, LRPA airplanes will require installation of substantial electronics equipment.

An earlier derivative program was completed when the Air Force received the last of an order for 19 Airborne Navigator Trainers. Fourteen of the aircraft, an adaptation of the 737, were delivered in 1974.

The company's ability to realize the potential in the high-technology orientation of its workforce is well illustrated by the Minuteman intercontinental ballistic missile program, with which Boeing has been involved since 1962. This ability, especially in the systems-integration field, has been employed in many aspects of this Air Force program, including the ongoing modernization of the Minuteman force to meet changing strategic conditions. Modernization work proceeded on schedule during 1974 at Warren Air



- Artist's drawing shows how a modified 747 will be utilized to carry NASA's Space Shuttle Orbiter.
- Mockup of crew station (right) for B-1 bomber's navigation and weapons delivery systems functions with operating electronics developed by Boeing.
- Large Space Telescope (lower right) will be one of NASA's first major payloads for the Space Shuttle. Boeing has a study contract for the LST.
- Boeing's YC-14 (lower left) is taking shape in Seattle. Fuselage is 17 feet 10 inches in diameter, within 3½ feet of the 747's width. The YC-14 can carry the Army's biggest tank.



Force Base, Wyoming, and Boeing crews also began work at Minot AFB, North Dakota.

Systems-integration ability, important on Minuteman and on the Command Post, also is a key to the company's assignments on the B-1 supersonic bomber. Already serving as contractor for the offensive avionics subsystems on the B-1, the company received approval in 1974 to proceed with development of one segment of the bomber's defensive system and with integration of the entire defensive system.

Several other programs offer the potential for sustained business over a considerable period of time. One of these is the Air Force's YC-14 Advanced Medium STOL (short-takeoff-and-landing) Transport, a program on which Boeing is engaged in a two-company prototype competition. Wind-tunnel tests and laboratory simulation of this high-technology design have verified its configuration. Major assembly is under way and the first prototype is scheduled to fly in 1976. Winning this competition—and a follow-on production order—would make a major contribution to our business level in 1977 and beyond.

In seeking to broaden its military product and customer base, the company has made encouraging progress. As 1975 began, an important goal was achieved when the Hughes-Boeing team won a competition to provide an anti-aircraft missile for the U.S. Army's short-range air defense system. Hughes, with Boeing as a major subcontractor, was awarded a \$108 million contract for design-conversion, fabrication of

a test system and the testing of the French/German-developed Roland missile.

The demonstration phase of the Compass Cope remotely piloted vehicle program was concluded in November 1974 with flights by the Boeing aircraft and a competing vehicle. All operational requirements were demonstrated by the Boeing craft in just two flights, the second lasting more than 17 hours. An Air Force decision on its remotely piloted vehicle requirements is not expected before summer of 1975.

In February 1974, Boeing was authorized to begin preliminary work on the Air Launched Cruise Missile, which evolved from earlier work on a subsonic cruise armed decoy. At year's end, the government restructured the program to an advanced development phase which continues to the end of 1976. That phase includes test flights of prototype missiles.

The Short Range Attack Missile (SRAM) program is drawing to a close. The 1,000th missile was delivered in August. While further SRAM production is a possibility, currently planned procurement will be completed with delivery of the 1,500th missile, scheduled for August of 1975. SRAM has been a major production program of Boeing Aerospace Company for the past three years.

In the field of space, the company achieved success on one program and has made a promising start on another.

Mariner 10 completed its assigned mission in the first quarter of 1974 when it became the first spacecraft to explore two planets on a single journey. It



■ Interior mockup of Jetfoil shows the comfortable seating arrangements for passengers on board these fast, smooth-riding hydrofoils.



■ Compass Cope is a remotely piloted vehicle designed for long-endurance flights. One test flight in 1974 lasted more than 17 hours.

flew by Venus and Mercury, returning pictures and scientific data which are providing scientists a better understanding of the solar system and thus of Earth itself. Since then, the Boeing-built craft has orbited the sun and returned for a second Mercury fly-by, not originally scheduled, and was on course at year-end for a third Mercury encounter. The spacecraft was delivered on schedule and below the budget set five years earlier. For outstanding performance on the program, Boeing was granted a NASA achievement award.

In the fall, the company was chosen for a significant role in development of the Large Space Telescope, an optical instrument intended to give man unparalleled views into the universe. Boeing was one of three firms selected by NASA to fulfill similar contracts for the preliminary design and program definition of the telescope's support systems module. NASA plans to launch the sophisticated instrument into Earth orbit aboard the Space Shuttle in the early 1980s.

The first two passenger-carrying hydrofoil vessels, called Jetfoils, were launched during 1974. Jetfoil One entered the water in March and by year's end had accumulated some 200 hours of foilborne "flight." Five Jetfoils will be delivered to customers in Hong Kong and Hawaii by late summer.

Military hydrofoil activity was highlighted by the November launching of the U.S. Navy's first Patrol Hydrofoil Missile ship, *Pegasus*. Earlier in the year the company received a contract to design a similar vessel for the Federal Republic of Germany. These ships represent a basic design developed for use by the navies of NATO nations, featuring a common hull but permitting variations in weapons.

The potential market for commercial and military hydrofoils is promising.

Penetration of the support-services market was expanded with the award of a three-year contract to maintain NASA's Michoud Assembly facility at New Orleans. Support services are also provided for NASA at Kennedy Space Center, Florida, and for the U.S. Air Force at seven bases in Turkey and one in Spain.

In surface transportation, the Morgantown (West Virginia) Personal Rapid Transit system is scheduled to be ready for public service this year. The technology also is being employed on a similar system which will carry visitors at the International Ocean Exposition, opening in Okinawa this July.

In other areas, the asphalt plant business is continuing, the farming-ranching development in Oregon is gradually expanding, and the electronics production has been redirected to concentrate on support of Boeing's own programs.



■ H. N. Stuverude
President
Boeing Vertol Company

BOEING VERTOL COMPANY

It was a year of new product development at Boeing Vertol Company, which has primary responsibility for Boeing helicopter and commercial rail car activities.

The Utility Tactical Transport Aircraft System helicopter, the company's entry in a U.S. Army competition, made its first flight in November, successfully demonstrating 39 programmed tasks. The second and third prototypes proceeded toward rollout in

■ The UTTAS is an advanced-technology helicopter being developed for U.S. Army of 1980s.



early 1975, with the fly-off competition and production award expected in 1976. The U.S. Navy has expressed the intent to meet its Light Airborne Multi-Purpose System requirements with a UTTAS aircraft, and the company is working with the Navy on ship-board installation requirements. Also, foreign and commercial interest in UTTAS is increasing.

Although the Heavy Lift Helicopter was not accorded hoped-for production status, the prototype development program continued to meet its objectives. Program highlights of the HLH, capable of lifting up to 36.4 tons, included demonstration of such advanced technology as the fly-by-wire control system, composite rotor blades, fail-safe components, honeycomb fuselage structure and advanced transmissions.

Modernization kits are being developed for the Navy's H-46 Sea-Knights. Following successful demonstration of two aircraft modified to incorporate the updated configuration, the Navy plans to initiate funding for 290 kits. An order for the first 18 has been authorized.

The CH-47C Chinook continued to fulfill the demands of a limited market for medium-lift military helicopters. During 1974, 13 Chinooks were delivered to the U.S. Army, Spanish Army, Canadian Defense Forces and Agusta, the company's Italian licensee. Fourteen new international orders were received, bringing the backlog for all customers to 41.

U.S. Army plans for the purchase of an additional 19 CH-47s and for a second Heavy Lift Helicopter prototype have been suspended because of congressional defense budget cuts.

In the field of rapid transit the company is engaged in three programs: the Urban Rapid Rail Vehicle program, the Light Rail Vehicle program, and the Rapid Transit Car program.

The company serves as systems manager for the U.S. Department of Transportation's Urban Rapid Rail Vehicle program, consisting of the development and demonstration of two State-of-the-Art cars and two Advanced Concept Train vehicles. During 1974 the State-of-the-Art cars successfully completed demonstrations in New York, Boston and Cleveland, carrying more than 245,000 revenue passengers. The Advanced Concept Train vehicles are currently in development, with demonstrations scheduled to begin in 1976.

On the Light Rail Vehicle program, the number of streetcars on order increased from 230 to 275 when Boston's order was raised to 175 and San Francisco's to 100. The first vehicle made its initial run on the company's test track in mid-September. Test results indicate weight, noise, ride quality, acceleration/deceleration, speed and power requirements have met or bettered specifications. Deliveries are scheduled for 1975 and 1976.

Development of the only small (50-foot length) Rapid Transit car in the United States continued under a contract with the Chicago Transit Authority. Deliveries of the 200 cars are to take place in 1976 and 1977.



- New CH-147 Chinooks are the third generation of Boeing helicopters to serve in Canada.
- Light rail vehicle, called Boeing superrolley, is being built for Boston and San Francisco.
- Chicago Transit Authority has ordered 200 rapid transit cars for its surface/elevated system.

BOEING COMPUTER SERVICES, INC.

Boeing Computer Services, Inc. (BCS) provides Boeing operating organizations with the extensive computing capacity and services required in the development and management of the programs described earlier in the report. BCS also serves more than 1,000 non-Boeing customers having a wide variety of needs.

Development of new products and services remains a major objective. During 1974, the BCS product line continued to grow with the introduction of a computer capacity-management system and a structural analysis service. Also, the Wharton Econometric Forecasting Model was made available nationally through the BCS timesharing network. The BCS Education & Training division introduced 14 new training courses, including "Making It Count," a college-level introduction-to-computing television course for which 25 universities had contracted by year-end.

Through acquisition of four small computer firms in 1974, BCS is in a position to provide substantial services for the Alyeska pipeline project, to enhance service to other customers in Alaskan and Canadian markets, and to penetrate two additional new market sectors: data processing for commercial banks and similar services for retail firms utilizing point-of-sale terminals.

BCS added four new domestic sales offices during the year and, with its subsidiaries, will enter 1975 with a total of 12 data centers and 32 sales offices serving a wide variety of customers with a full range of services, including timesharing, custom programming, application packages, training, and consulting.



■ R. W. Tharrington
President
Boeing Computer Services, Inc.



■ BCS is one of main suppliers of computing services to Alyeska Pipeline Services Company. The 48-inch-wide pipeline will run 800 miles from Prudhoe Bay to Valdez.

FINANCIAL REVIEW

Sales, Earnings and Dividends

Consolidated sales in 1974 were \$3,731 million, slightly over the previous record level of \$3,677 million reported in 1970, and an increase of \$395 million, or 11.9% over 1973. Export sales were 44% of total sales in 1974 compared with 35% in 1973. Sales to the U.S. Government in 1974 and 1973 were 40% and 43% respectively of total sales.

The higher sales volume was primarily attributable to increased jet transport deliveries. Including military derivatives, twenty-one 707s, ninety-one 727s, fifty-five 737s and twenty-two 747s were delivered in 1974 for a total of 189. This compares with 1973 deliveries of eleven 707s, ninety-two 727s, twenty-three 737s and thirty 747s for a total of 156. Current schedules call for the 1975 delivery of about ten 707s, ninety 727s, fifty 737s and twenty-two 747s for a total of 172.

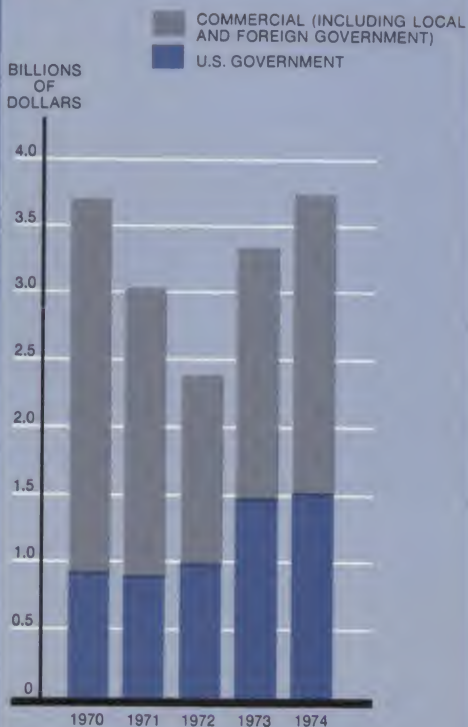
Military and space sales in 1974 were approximately \$65 million higher than in 1973 with the increased volume primarily attributable to military aircraft activities. The AWACS and the Airborne Navigator Trainer programs were the major contributors to in-

creased military aircraft sales. Missile and space sales declined in total as increased Minuteman sales were more than offset by a decrease in SRAM deliveries and the continuing decline in space activities.

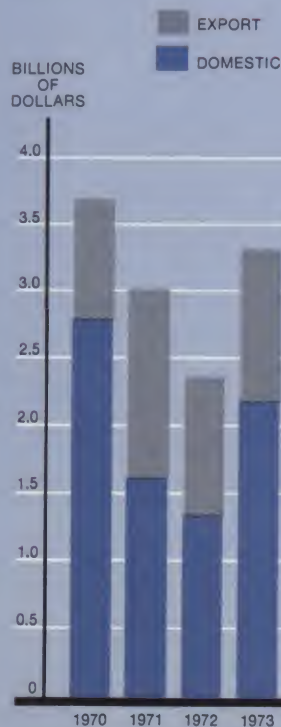
The company continued its practice of charging directly to earnings as incurred, research and development (including basic engineering and planning costs on commercial programs) and general and administrative expenses except to the extent such expenses are estimated to be recoverable under contracts.

Research and development expenses of \$178 million and general administrative expenses of \$111 million charged directly to earnings in 1974 were \$49.8 million and \$19.9 million higher than in 1973. The increase in research and development expenses relates principally to new product development, derivative model, and product improvement expenditures on commercial jet transport and other transportation equipment programs. The increase in general and administrative expenses is basically attributable to the higher level of business activity. In addition to the above increases, the economic environment that

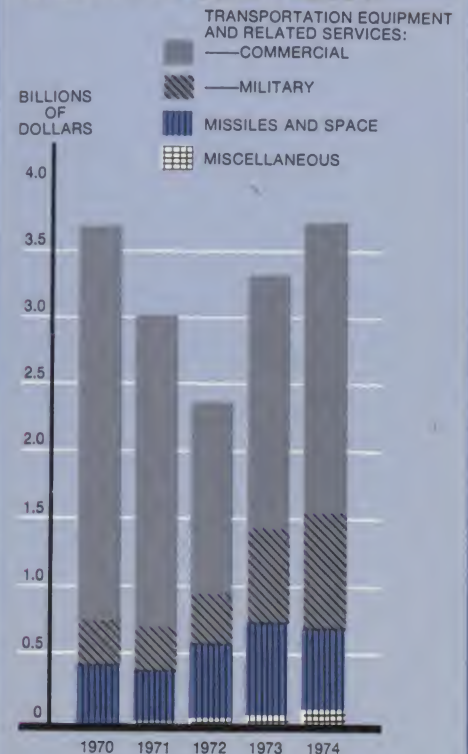
SALES



SALES



SALES BY CLASS OF PRODUCT



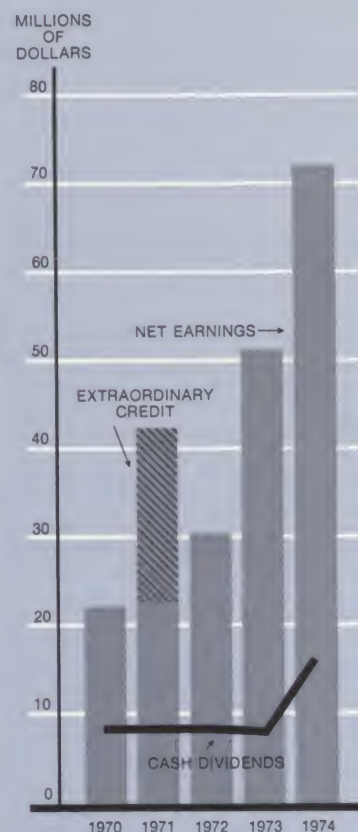
prevailed throughout the year adversely affected the company's overall cost of doing business. However, continued favorable performance on major programs coupled with a \$23.8 million decrease in interest and debt expense and a \$3.5 million increase in other income, resulted in a significant improvement in current year's earnings.

Earnings before Federal income taxes were \$102.4 million, an increase of \$44.6 million, or 77.2% above the comparable 1973 figure of \$57.8 million. The 1974 provision for Federal taxes on income increased \$23.4 million over 1973. The increase was attributable to the tax on increased earnings plus the net effect of a \$2.4 million decrease in amortization of previously deferred investment tax credits and a \$0.3 million increase in tax benefits from the company's domestic international sales corporations.

Net earnings for 1974 were \$72.4 million, an increase of \$21.2 million, or 41.4% over the \$51.2 million for 1973. The earnings amounted to \$3.42 per share and 1.9% of sales, compared with \$2.38 per share and 1.5% of sales for 1973.

Sales and approximate earnings contribution by the company's major business categories for the five-year period 1970 through 1974 are summarized below:

NET EARNINGS AND CASH DIVIDENDS



SALES AND EARNINGS CONTRIBUTION (in millions)

	1974	1973	1972	1971	1970
Sales					
Transportation Equipment and Related Services—					
(Primarily Aircraft)	\$3,020	\$2,598	\$1,752	\$2,661	\$3,265
Missiles/Space and Miscellaneous	711	737	618	379	412
Total	<u>\$3,731</u>	<u>\$3,335</u>	<u>\$2,370</u>	<u>\$3,040</u>	<u>\$3,677</u>
Approximate Earnings Contribution After Program and Contract Research and Development Expenses					
Transportation Equipment and Related Services—					
(Primarily Aircraft)	\$167.0	\$113.5	\$119.1	\$164.7	\$222.9
Missiles/Space and Miscellaneous	68.2	84.9	48.7	24.7	28.1
	235.2	198.4	167.8	189.4	251.0
Other Expenses—Net	(132.8)	(140.6)	(143.0)	(177.2)	(241.6)
Earnings Before Taxes and Extraordinary Items . . .	<u>\$102.4</u>	<u>\$ 57.8</u>	<u>\$ 24.8</u>	<u>\$ 12.2</u>	<u>\$ 9.4</u>

Unallocated "other expenses—net" include general and administrative expenses and company-sponsored independent research and development costs not recoverable under contracts, interest on debt and interest and miscellaneous income.

Quarterly dividends paid per share for 1974 and 1973 were as follows:

Quarter	1974	1973
1st	\$.15	\$.10
2nd15	.10
3rd15	.10
4th30	.10
	<u>\$.75</u>	<u>\$.40</u>

Regular quarterly dividends were increased from 10 cents to 15 cents per share in the first quarter of 1974. In addition, a special dividend of 15 cents per share was paid in December bringing total cash dividends for 1974 to 75 cents compared with 40 cents for 1973. Effective with the first quarter of 1975, the regular quarterly dividend rate was increased to 20 cents per share.

Ranges of 1974 and 1973 market prices for the company's common stock, as traded on the New York Stock Exchange, were as follows:

Quarter	1974		1973	
	High	Low	High	Low
1st	15 $\frac{7}{8}$	11 $\frac{5}{8}$	26 $\frac{7}{8}$	20
2nd	18 $\frac{5}{8}$	13 $\frac{3}{4}$	21	16 $\frac{3}{8}$
3rd	20 $\frac{1}{2}$	14 $\frac{1}{2}$	20 $\frac{3}{4}$	15 $\frac{7}{8}$
4th	19 $\frac{7}{8}$	15 $\frac{1}{8}$	20 $\frac{1}{2}$	11 $\frac{5}{8}$

Financial Position

At December 31, 1974, stockholders' equity in the company totaled \$955 million, up \$55 million from the prior year. Working capital increased \$38 million to \$502 million. Jet transport financing, which includes long-term notes receivable from customer

airlines and the depreciated book value of leased aircraft, decreased \$11 million during 1974 to a total of \$250 million at year end. Facilities additions net of retirements exceeded plant depreciation by \$20 million, increasing the company's net investment in plant and equipment to \$369 million at the end of 1974.

Long-term debt was \$164 million at the end of 1974, down \$110 million from the prior year end. As stated in the 1973 annual report, the remaining Boeing Financial Corporation debt of \$96 million was prepaid on January 11, 1974. The balance of the reduction represented required annual payments on long-term debentures and notes.

The company's commercial bank credit arrangements are covered by two agreements. The 1972 bank credit agreement provides for a credit line of \$200 million for a fifty-two week period, with the provision that unless either the company or the banks give notice otherwise, such commitment will be extended on a weekly basis for an additional fifty-two week period. The agreement further provides that if such extensions continue beyond January 1, 1976, the commitments will thereafter be reduced by 8 $\frac{1}{3}$ % per quarter with a final termination date of December 31, 1978. There were no borrowings under this agreement at year end.

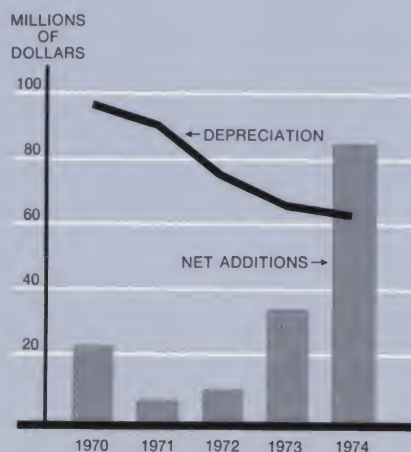
The other bank credit agreement provides a credit line of \$50 million (reduced from \$175 million during the year) to Boeing Financial Corporation, a wholly-owned subsidiary established to assist in financing commercial aircraft. The loans, if any, are governed by a borrowing base which is dependent on assets owned by Boeing Financial Corporation. There were no borrowings under this agreement at year end.

Backlog

Total firm backlog of unfilled orders at the end of 1974 was \$3,824 million, an increase of \$672 million or 21.3% over the year-end 1973 level of \$3,152 million. Of the total 1974 backlog, \$2,754 million or 72% was for commercial and foreign customers and \$1,070 million or 28% was with the United States Government. Comparable figures for 1973 were \$2,008 million or 64% commercial and foreign and \$1,144 million or 36% United States Government.

Conditional orders and purchase options are not included in commercial backlog. Government order backlog is limited to amounts obligated to contracts by the procuring agencies. If recognition were given to unfunded amounts under contract with the government at December 31, unfilled orders would be increased by about \$700 million in 1974 and \$800 million in 1973.

PROPERTY, PLANT AND EQUIPMENT



CONSOLIDATED STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

Year ended December 31,

	<u>1974</u>	<u>1973</u>
Sales	\$3,730,667,000	\$3,335,189,000
Other income	47,334,000	43,778,000
	<u>3,778,001,000</u>	<u>3,378,967,000</u>
Costs and expenses	3,660,224,000	3,281,991,000
Interest and debt expense	15,345,000	39,161,000
	<u>3,675,569,000</u>	<u>3,321,152,000</u>
EARNINGS BEFORE TAXES	102,432,000	57,815,000
Federal taxes on income	30,000,000	6,600,000
NET EARNINGS	72,432,000	51,215,000
Retained earnings, January 1	460,254,000	417,661,000
Cash dividends paid: 1974—\$.75 per share; 1973—\$.40 per share	(15,898,000)	(8,622,000)
Retained earnings, December 31	<u>\$ 516,788,000</u>	<u>\$ 460,254,000</u>
NET EARNINGS PER SHARE	<u>\$3.42</u>	<u>\$2.38</u>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET**ASSETS**

December 31,

	<u>1974</u>	<u>1973</u>
CURRENT ASSETS:		
Cash and short-term investments	\$ 39,498,000	\$ 51,520,000
Accounts receivable	237,811,000	191,074,000
Current portion of long-term notes receivable . .	62,477,000	51,493,000
Inventories	763,109,000	755,231,000
Prepaid expenses	11,499,000	7,490,000
Total Current Assets	1,114,394,000	1,056,808,000
 DEFERRED TAXES ON INCOME		10,000,000
 LONG-TERM NOTES RECEIVABLE, less current portion	237,513,000	242,803,000
 LEASED AIRCRAFT, at cost, less accumulated depreciation: 1974—\$87,050,000; 1973—\$98,388,000 . . .	12,197,000	18,326,000
 OTHER ASSETS AND DEFERRED CHARGES	13,075,000	5,638,000
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	26,977,000	25,440,000
Buildings	519,921,000	509,466,000
Machinery and equipment	578,975,000	525,729,000
Construction in progress	11,585,000	6,876,000
Less accumulated depreciation and amortization	(768,323,000)	(718,027,000)
	<u>369,135,000</u>	<u>349,484,000</u>
	<u>\$1,746,314,000</u>	<u>\$1,683,059,000</u>

See notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

December 31,

	<u>1974</u>	<u>1973</u>
CURRENT LIABILITIES:		
Notes payable to banks	\$ 4,000,000	\$ 3,400,000
Accounts payable	413,285,000	315,115,000
Salaries and wages, taxes and other accrued expenses	163,767,000	142,638,000
Federal taxes on income	15,829,000	22,109,000
Current portion of long-term debt	15,427,000	109,726,000
Total Current Liabilities	<u>612,308,000</u>	<u>592,988,000</u>
 DEFERRED TAXES ON INCOME	 7,000,000	
 DEFERRED INVESTMENT CREDIT	 23,000,000	 25,100,000
 LONG-TERM DEBT , less current portion	 149,039,000	 164,849,000
 CONTINGENT LIABILITIES		
 STOCKHOLDERS' EQUITY:		
Capital stock—		
Common, par value \$5 a share:		
Authorized, 40,000,000 shares		
Issued at stated value—21,688,888 shares	447,158,000	447,158,000
Retained earnings	516,788,000	460,254,000
	<u>963,946,000</u>	<u>907,412,000</u>
Less treasury stock, at cost—		
1974—517,400 shares; 1973—392,400 shares	(8,979,000)	(7,290,000)
	<u>954,967,000</u>	<u>900,122,000</u>
	<u>\$1,746,314,000</u>	<u>\$1,683,059,000</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31,	
	1974	1973*
SOURCES OF FUNDS:		
From operations—		
Net earnings	\$ 72,432,000	\$ 51,215,000
Depreciation:		
Plant and equipment	64,478,000	65,994,000
Leased aircraft	6,129,000	7,521,000
Amortization of investment credit	(9,100,000)	(11,500,000)
Deferred Federal taxes on income	17,000,000	(12,000,000)
Total from operations	150,939,000	101,230,000
Decrease in aircraft financing—		
Long-term notes receivable	5,290,000	8,470,000
Leased aircraft		115,000
Increase in deferred investment credit	7,000,000	3,500,000
	163,229,000	113,315,000
USES OF FUNDS:		
Decreases in long-term debt	15,810,000	337,789,000
Additions to plant and equipment, net	84,129,000	33,074,000
Cash dividends	15,898,000	8,622,000
Acquisition of treasury stock	1,689,000	7,290,000
Other	7,437,000	1,257,000
	124,963,000	388,032,000
NET INCREASE (DECREASE) IN WORKING CAPITAL	\$ 38,266,000	\$(274,717,000)
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Cash	\$ (12,022,000)	\$ 568,000
Receivables	57,721,000	(29,689,000)
Inventories	7,878,000	(378,116,000)
Prepaid expenses	4,009,000	669,000
Notes payable to banks	(600,000)	103,650,000
Accounts payable	(98,170,000)	10,153,000
Salaries and wages, taxes and other accrued expenses	(14,849,000)	(14,713,000)
Current portion of long-term debt	94,299,000	32,761,000
NET INCREASE (DECREASE) IN WORKING CAPITAL	\$ 38,266,000	\$(274,717,000)

*Reclassified to conform to 1974 presentation.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1974 and 1973

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of all significant subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation.

INVENTORIES. Inventoried costs on long-term commercial programs and U.S. Government contracts include direct engineering, production, and tooling costs and applicable overhead. In addition, for U.S. Government fixed-price incentive contracts, inventoried costs include research, development, general and administrative expenses estimated to be recoverable. Inventoried costs are reduced by the estimated average cost of deliveries.

For mature commercial programs, the average cost of deliveries is based on the estimated total cost of units committed to production. For commercial programs in the early production stages, the average cost of deliveries is based on the estimated total cost of units representing a conservative market projection. For U.S. Government contracts the average cost of deliveries is based on the estimated total cost of units under contract.

To the extent the total costs as determined above are expected to exceed the total estimated sales price, charges are made to current earnings to reduce inventoried costs to estimated realizable value.

In accordance with industry practice, inventoried costs include amounts relating to programs and contracts with long production cycles, a portion of which is not expected to be realized within one year.

Commercial spare parts and general stock materials are stated at average cost not in excess of realizable value.

REVENUE RECOGNITION. Sales under commercial programs and U.S. Government fixed-price and fixed-price incentive contracts are recorded as deliveries are made. Sales under cost-reimbursement type contracts are recorded as fees are earned and costs are incurred. Certain U.S. Government contracts contain profit incentives based upon performance as compared to predetermined targets. Incentives based on cost are recorded currently. Other incentives are included in revenues when awards or penalties are established, or when amounts can reasonably be determined. Aircraft leases are accounted for on the operating method.

DEPRECIATION AND AMORTIZATION. Property, plant and equipment and leased aircraft are recorded at cost and depreciated or amortized over useful lives based principally on accelerated methods.

RETIREMENT PLANS. The Company has several retirement plans covering substantially all employees. The Company's policy is to accrue and fund current pension costs. Unfunded liabilities are amortized over 25 years.

RESEARCH, DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES. Research and development (including basic engineering and planning costs on commercial programs) and general and administrative expenses are charged directly to earnings as incurred except to the extent estimated to be recoverable under contracts.

FEDERAL TAXES ON INCOME. The provision for Federal income taxes is based on all elements of income and expense included in the statement of net earnings, regardless of the period when such items are reported for tax purposes, except that no provision is made for that portion of the earnings of the Company's Domestic International Sales Corporations for which management believes tax payments will be indefinitely deferred. The effects of timing differences between the reporting of revenues and expenses for financial statements and Federal income tax purposes are reflected as changes in deferred taxes on income. Investment tax credits are deferred and recorded as reductions in the provision for income taxes over the lives of the applicable assets.

Note 2—ACCOUNTS AND NOTES RECEIVABLE:

Accounts receivable at December 31 consist of—

	1974	1973
	(in thousands)	
Amounts receivable under U.S.		
Government contracts	\$127,740	\$117,002
Accounts receivable from		
commercial customers	110,071	74,072
	<u>\$237,811</u>	<u>\$191,074</u>

No significant amounts are included in accounts receivable which represent retainages under contracts, amounts subject to future negotiations, accrued costs and profits not billable, or amounts which will not be collected within one year.

Principal payments receivable under long-term notes from commercial customers for the next five years are—

	(in thousands)	
1975	\$62,477	
1976	78,146	
1977	62,671	
1978	48,714	
1979	23,860	

The notes bear interest at rates of 5% to 12%.

Note 3 - INVENTORIES:

Inventories at December 31 include the following—

	<u>1974</u>	<u>1973</u>
	<i>(in thousands)</i>	
Inventoried costs relating to long-term commercial programs and U.S. Government contracts, less estimated average cost of deliveries	\$1,330,211	\$1,326,552
Commercial spare parts and general stock	109,927	73,584
	<u>1,440,138</u>	<u>1,400,136</u>
Less advances and progress payments	(677,029)	(644,905)
	<u>\$ 763,109</u>	<u>\$ 755,231</u>

Inventoried costs relating to long-term U.S. Government contracts include general and administrative expenses of approximately \$11,271,000 in 1974 and \$11,030,000 in 1973.

At December 31, 1974 inventoried costs relating to long-term commercial programs and U.S. Government contracts include \$198,000,000 of unamortized tooling costs and \$229,000,000 representing the excess of aggregate production costs incurred on in-process and delivered units over the aggregate estimated average cost of such units (determined as described in Note 1). Of these amounts, which relate principally to the 747 program, it is estimated that \$319,000,000 would not be recovered from firm orders as of March 3, 1975. With respect to the 747 program, such costs are being averaged over what management believes to be a conservative market projection of 400 aircraft. As of March 3, 1975, the Company had received 281 firm orders for 747 aircraft of which 248 had been delivered at December 31, 1974.

Note 4 - FEDERAL INCOME TAXES:

The provision for Federal taxes on income consists of—

	<u>1974</u>	<u>1973</u>
	<i>(in thousands)</i>	
Taxes currently payable	\$22,100	\$30,100
Deferred tax expense	17,000	(12,000)
Amortization of investment tax credit	(9,100)	(11,500)
	<u>\$30,000</u>	<u>\$ 6,600</u>

The provision for Federal taxes on income was reduced by \$10,000,000 (\$.47 a share) in 1974 and \$9,700,000 (\$.45 a share) in 1973 applicable to earnings of the Company's Domestic International Sales Corporation (DISC) subsidiaries, since management intends to indefinitely postpone payment of such taxes through the reinvestment of undistributed earnings in export-related assets. Cumulative undistributed DISC earnings for which Federal income taxes have not been provided amount to approximately \$50,800,000.

Deferred tax expense results from—

	<u>1974</u>	<u>1973</u>
	<i>(in thousands)</i>	
Deferred DISC earnings not indefinitely postponed	\$24,300	\$ 4,700
Prepaid lease income		6,300
Accrued commercial and U.S. Government program costs not currently deductible	(1,000)	(15,400)
Installment sales	(1,900)	(7,100)
Leased aircraft depreciation	(4,600)	(1,700)
Other	200	1,200
	<u>\$17,000</u>	<u>\$(12,000)</u>

The provision for Federal taxes on income is less than that which results from application of the statutory corporate tax rate because such provision has been reduced by \$10,000,000 in 1974 and \$9,700,000 in 1973 related to undistributed DISC earnings and by \$9,100,000 in 1974 and \$11,500,000 in 1973 of investment credit amortization.

Income taxes have been settled with the Internal Revenue Service for all years through 1972. Adequate provision for income taxes is believed to have been made for the years 1973 and 1974.

Note 5 - NOTES PAYABLE AND LONG-TERM DEBT:

Short-term notes of \$4,000,000 at December 31, 1974, bearing interest at $\frac{1}{4}$ % above the Canadian commercial bank prime rate, are payable by a Canadian subsidiary under a line of credit of \$4,000,000. No borrowings were outstanding at December 31, 1974 under an agreement with a group of banks which provides credit lines aggregating \$200,000,000 bearing interest at the commercial bank prime rate. A 10% compensating balance against the banks' commitment plus an additional 10% of amounts outstanding is required. The balance is calculated on an annual average balance basis and is unrestricted as to use. Commitment fees of $\frac{1}{2}$ % are charged for the unused credit lines.

Long-term debt consists of the following—

	<u>December 31,</u>	
	<u>1974</u>	<u>1973</u>
	<i>(in thousands)</i>	
Term Loan and Credit Agreement	\$ —	\$ 95,922
6 $\frac{3}{8}$ % notes payable	132,000	142,750
5% notes payable	25,250	28,000
5% Sinking Fund Debentures	6,664	7,264
Other notes	552	639
Less current maturities	(15,427)	(109,726)
	<u>\$149,039</u>	<u>\$164,849</u>

Boeing Financial Corporation, a wholly-owned subsidiary, is a party to a Term Loan and Credit Agreement with a group of banks providing \$50,000,000 of

financing under a revolving credit agreement governed by a borrowing base. Borrowings under this agreement bear interest at 120% of the commercial bank prime rate.

The 6¾% notes, maturing in 1986, are payable to a group of institutional lenders. Required annual sinking fund payments are \$10,750,000.

The 5% notes, maturing in 1983, are payable to an insurance company in annual installments of \$2,750,000.

Sinking fund requirements under the 5% Sinking Fund Debentures, due August 1, 1978, are \$2,700,000 annually. Debentures aggregating \$936,000 have been reacquired and may be applied against future sinking fund requirements.

The other notes bear interest at 5% to 8¼% and are payable in installments over various periods through 1980.

The Company has complied with the restrictive covenants contained in the various debt agreements. Retained earnings totaling \$72,404,000 are free from dividend restrictions.

Aggregate maturities and sinking fund requirements on long-term debt for each of the next five years are as follows—

(in thousands)

1975	\$15,427
1976	16,329
1977	15,824
1978	13,547
1979	13,518

Note 6—RETIREMENT PLANS:

Costs and expenses for 1974 and 1973 include retirement plan costs of \$43,338,000 and \$44,558,000. At December 31, 1974, actuarially determined vested benefits exceeded retirement plan assets by approximately \$116,000,000.

Note 7—RESEARCH, DEVELOPMENT, GENERAL AND ADMINISTRATIVE EXPENSES:

Expenses charged directly to earnings as incurred include—

	1974	1973
	(in thousands)	
Research and development . . .	\$178,472	\$128,654
General and administrative . . .	110,505	90,635

Note 8—CAPITAL STOCK:

During 1974 the Company authorized an additional 10,000,000 shares of \$5 par common stock and 10,000,000 shares of \$1 par preferred stock, none of which has been issued.

The Company reacquired 125,000 shares of common stock in 1974 and 392,400 in 1973. There were no other changes in common stock outstanding during the two years ended December 31, 1974.

At December 31, 1974 options for 536,450 shares of the Company's stock at prices ranging from \$13.25 to \$23.00 were outstanding, of which 196,374 shares were exercisable. During 1974, options for 207,200 shares were granted and options for 7,750 shares were cancelled. Additional options for 110,800 shares may be granted under the present stock option plan.

Note 9—CONTINGENT LIABILITIES:

Substantially all of the Company's contracts with the U.S. Government are subject to renegotiation under the Renegotiation Act of 1951. Renegotiation Board proceedings for all years through 1970 have been concluded. The Company does not know and cannot predict what the Board's actions will be for 1971 and subsequent years. In view of the uncertainty, and the belief of the Company that no excessive profits were realized, no provision for renegotiation refund has been made for these years.

The Company is engaged in various legal proceedings which in some instances involve claims for substantial amounts. Most of these claims are covered by insurance, and the Company does not anticipate that the amounts, if any, which may be required to be paid by the Company will be material.

ACCOUNTANTS' REPORT

TOUCHE ROSS & CO.

Board of Directors
The Boeing Company
Seattle, Washington

We have examined the consolidated balance sheet of The Boeing Company and subsidiaries as of December 31, 1974 and 1973, and the related statements of net earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Boeing Company and subsidiaries at December 31, 1974 and 1973, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Also, in our opinion, the action of the Board of Directors on March 3, 1975, in setting aside the sum of \$3,000,000 for the year 1974 under the Incentive Compensation Plan for officers and employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

THE FINANCIAL CENTER
SEATTLE, WASHINGTON 98161
March 3, 1975

Touche Ross & Co.

Certified Public Accountants

FIVE-YEAR COMPARATIVE FINANCIAL DATA

Dollars in millions except per share amounts

SUMMARY OF OPERATIONS*Year ended December 31,*

	1974	1973	1972	1971	1970
Sales	\$3,730.7	\$3,335.2	\$2,369.6	\$3,039.8	\$3,677.1
Other income	47.3	43.8	39.4	43.2	41.8
	<u>3,778.0</u>	<u>3,379.0</u>	<u>2,409.0</u>	<u>3,083.0</u>	<u>3,718.9</u>
Costs and expenses	3,660.3	3,282.0	2,327.8	3,014.3	3,632.9
Interest and debt expense	15.3	39.2	56.4	56.5	76.6
	<u>3,675.6</u>	<u>3,321.2</u>	<u>2,384.2</u>	<u>3,070.8</u>	<u>3,709.5</u>
Earnings before taxes and extraordinary item	102.4	57.8	24.8	12.2	9.4
Federal taxes on income	30.0	6.6	(5.6)	(10.2)	(12.7)
Earnings before extraordinary item	72.4	51.2	30.4	22.4	22.1
Recovery of cost share resulting from SST cancellation, net of Federal income taxes of \$18.3				19.8	
Net earnings	<u>\$ 72.4</u>	<u>\$ 51.2</u>	<u>\$ 30.4</u>	<u>\$ 42.2</u>	<u>\$ 22.1</u>
Average number of common shares outstanding	<u>21,187,605</u>	<u>21,513,521</u>	<u>21,685,076</u>	<u>21,683,102</u>	<u>21,683,102</u>
Earnings per share					
Before extraordinary item	\$3.42	\$2.38	\$1.40	\$1.04	\$1.02
Extraordinary item91	
Net earnings	<u>\$3.42</u>	<u>\$2.38</u>	<u>\$1.40</u>	<u>\$1.95</u>	<u>\$1.02</u>
Cash dividends paid per share	<u>\$.75</u>	<u>\$.40</u>	<u>\$.40</u>	<u>\$.40</u>	<u>\$.40</u>

MANAGEMENT DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Management's discussion and analysis of 1974 results compared with 1973 is set forth in the Financial Review section of this report under Sales, Earnings and Dividends, pages 18 to 20. Management comments relative to 1973 results compared with 1972 are as follows:

Sales in 1973 were approximately 41% above the 1972 level with increased commercial jet transport deliveries and military aircraft sales the principal contributors to the higher sales volume. Increases in sales on Minute-man and SRAM missile programs more than offset declining space business. Research and development expenses (including basic engineering and planning costs on commercial programs) were \$28.7 million and general and administrative expenses were \$20.3 million

higher than 1972 levels. However, favorable performance on missile programs and a \$17.3 million decrease in interest and debt expense resulted in the earnings improvement. The decrease in interest and debt expense was attributable to the significant reduction in debt levels achieved during 1973.

The provision for Federal taxes on income increased \$12.2 million over 1972 due to the tax effect of increased earnings less the net effect of a \$1.3 million decrease in the amortization of previously deferred investment tax credits and a \$5.0 million increase in tax benefits from the company's domestic international sales corporation.

FINANCIAL POSITION AT YEAR END

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Working capital	\$ 502.1	\$ 463.8	\$ 738.6	\$ 694.8	\$ 656.6
Long-term notes receivable	237.5	242.8	251.3	247.8	258.9
Leased aircraft, net	12.2	18.3	26.0	36.1	57.3
Facilities — at cost	1,137.5	1,067.5	1,059.2	1,077.3	1,104.4
Facilities — net	369.1	349.5	382.4	448.9	532.2
Long-term debt	149.0	164.8	502.6	527.6	623.8
Deferred taxes	7.0	(10.0)	2.0	17.0	17.2
Deferred investment credit	23.0	25.1	33.1	44.4	58.8
Stockholders' equity	955.0	900.1	864.8	843.0	809.4
—per share	\$ 45.11	\$ 42.27	\$ 39.87	\$ 38.88	\$ 37.33
Common shares outstanding	21,171,488	21,296,488	21,688,888	21,683,102	21,683,102

PRINCIPAL SOURCES AND (USES) OF FUNDS

Net earnings	\$ 72.4	\$ 51.2	\$ 30.4	\$ 42.2	\$ 22.1
Depreciation of plant	64.5	66.0	75.9	89.6	98.4
Capital stock	(1.7)	(7.3)	0.1	—	—
Long-term debt and deferred items	(0.9)	(357.8)	(51.2)	(110.8)	(26.6)
Cash dividends	(15.9)	(8.6)	(8.7)	(8.7)	(8.7)
Plant additions, net	(84.1)	(33.1)	(9.4)	(6.4)	(21.3)
Aircraft financing	11.4	16.1	6.7	32.3	(17.7)
Other	(7.4)	(1.2)	(.1)	—	—
Increase (decrease) in working capital	<u>\$ 38.3</u>	<u>\$ (274.7)</u>	<u>\$ 43.7</u>	<u>\$ 38.2</u>	<u>\$ 46.2</u>

OTHER DATA

Firm backlog	\$3,824.4	\$3,152.2	\$2,830.9	\$2,200.7	\$3,032.6
Salaries and wages	\$1,099.0	\$ 955.5	\$ 783.5	\$ 711.0	\$ 943.3
Average number of employees	74,400	68,200	58,600	56,300	79,100
Floor area (million square feet)					
Boeing owned	25.2	23.7	24.2	24.6	25.0
Leased	2.3	1.5	1.6	1.6	2.3
Government owned	5.8	5.9	7.4	7.9	8.0

ORGANIZATION and MANAGEMENT

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Chief Executive Officer*

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Senior Vice President—Finance

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J. C. Penney Company, Inc. (Department Stores)*

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(Petroleum Products)*

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*Vice President; President,
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Vice President—Operations Staff

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Vice President
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General Manager—747 Division
- E. A. OCHEL
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- J. F. SUTTER
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- H. W. WITHINGTON
Vice President—Engineering
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Assistant General Manager

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Wichita, Kansas

- O. H. SMITH
Vice President
General Manager

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Kent, Washington

- H. K. HEBELER
Vice President
General Manager

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- B. W. LAMB
General Manager

BOEING COMPUTER SERVICES, INC.

(Subsidiary)

Dover, New Jersey and Kent, Washington

- R. W. THARRINGTON
President
Chief Executive Officer
- J. H. GOLDIE
Executive Vice President



- Forward foil of *Pegasus*, the Navy's first Patrol Hydrofoil Missile Ship, shows aerospace heritage.

GENERAL COUNSEL PERKINS, COIE, STONE, OLSEN & WILLIAMS

GENERAL AUDITORS TOUCHE ROSS & CO.

TRANSFER AGENT FIRST NATIONAL CITY BANK, NEW YORK

REGISTRAR BANKERS TRUST COMPANY, NEW YORK

THE **BOEING** COMPANY

GENERAL OFFICES - 7755 EAST MARGINAL WAY SOUTH - SEATTLE, WASHINGTON 98124



- On recent Boeing sales tour of Mideast and North Africa, 747B logged 28,429 miles, made 25 special flights in 15 cities, and received 2000 visitors.



- During evacuation of cyclone stricken Darwin, Boeing aircraft carried record passenger loads.
- Burner IIA, upper-stage booster for a variety of spacecraft, receives final inspection.



- Boeing Engineering and Construction, new organization whose primary focus is on energy-producing facilities and equipment, also has manufacturing and construction activities related to water treatment. Examples are the Brine Concentrator (lower) used at electrical generating stations to conserve cooling water, and (upper) part of municipal waste water treatment plant.

THE **BOEING** COMPANY

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